

**Exhibit A**

**September 30, 2000 ExpertTelligence, Inc. Annual Report to Stockholders**

# ***ExperTelligence, Inc.***

ANNUAL REPORT TO STOCKHOLDERS

SEPTEMBER 30, 2000

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# ***ExperTelligence, Inc.***

## **DEAR FELLOW STOCKHOLDERS,**

Over the next decade, the Internet economy will bring about more dramatic changes in the way we work, live, play, and learn than we witnessed during the last 200 years of the Industrial Revolution.

ExperTelligence is positioned to provide infrastructure solutions from forms, to real-time data and digital advertising. We provide the Internet technology solutions that will help our customers generate new revenue, reduce costs, target customers, and empower their employees.

The thread that ties our divisions and subsidiaries together is the focus on delivering information in real time. Organizations bring their information processes online using WebBase and ExperForms software. Researchers use WebData.com to gather information from a multitude of databases. Investors click to 3DStockCharts.com to better visualize trading activity on the ECN's. Advertisers and publishers will meet on ExperClick to buy and sell ads targeted to an individual – one impression at a time.

## A RECAP OF 2000:

### ***ExperTelligence, Inc.***

- ExperTelligence was listed on the Nasdaq Small Cap (SM) Market under EXGP.
- Revenues went from \$228,652 to \$419,913, almost doubling in one year. The majority of revenue was generated through the WebBase division.

### ***3DStockCharts.com***

- Registered users increased from 8,000 to 77,000, growing by 960%.
- Ad Impressions increased from 20,000 per day to 400,000 per day, a 2000% increase.
- 3DStockCharts.com has built strategic relationships with Island, Archipelago, REDIBook, BRUT, and Instinet Corporation, representing 90% of all ECN transactions to display their limit book orders.
- In May 3DStockCharts.com raised an additional \$3M in funding at \$1.96 per 3D share, enabling accelerated growth for our 69% owned subsidiary. ExperTelligence owns 8 million shares of 3DStockCharts. 3DStockCharts.com has fourteen employees and consultants.
- Awards from OnlineInvestor Magazine include a 'Blue Chip Pick' All Star Site and a Site of the Year 2000.

### ***WebBase***

- Consulting revenue increased by 50%. WebBase gained two consulting accounts: Santa Barbara County and the Santa Barbara News Press.
- Continued support and development of the award winning [www.HarrisInfoOnline.com](http://www.HarrisInfoOnline.com) e-commerce web site

- WebBase and ExperForms software revenue increased by 55%.
- An account manager and marketing director was added to the ExperForms team in anticipation of the PDF product launch in Q2 of 2001. This product will work with Adobe Acrobat forms.

### ***WebData.com***

- First site to have its banner ads run through ExperClick.
- Increased merchant affiliates from 60 to 251, a 400% increase.
- WebData.com has continued to be a showcase of WebBase software technology.

### ***ExperClick***

- Filed an additional patent on the novel ad serving architecture that uses distributed computing and XML messaging in a real-time auction solution (the first was filed in March 1999).
- Built the technology and management team for ExperClick. ExperClick employs 10 Java software experts, and 3 business development, 2 marketing and 2 customer service team members.
- At the end of December, entered the operational beta testing phase of version 1.0 of the software.
- The same month deployed a fully redundant ECN (consisting of 15 dual CPU computers operating in parallel with more than twenty times the power of the original Cray2) in Intel Online's "non-stop" hosting facility in San Jose.

Each division and subsidiary reached strategic partnership, traffic and staffing goals. Taken together, these developments make a compelling argument for ExperTelligence's success in the e-business infrastructure software market.

During 2001, we will sustain our focus on innovation and customer empowerment so that we can capitalize on continued growth in our market. Industry experts agree that the technologies enabling Internet infrastructure have the potential to dwarf Internet and client/server applications in their scope of use and revenue-generating potential. Based on projected growth in the online advertising and electronic forms markets, we will focus our resources on growing the ExperClick subsidiary and WebBase division, while continuing to support the WebData portal. 3DStockCharts operates under the guidance of its own board of directors (2 from ExperTelligence).

Media research firm, Jupiter, predicts the online advertising market will grow 30% annually through 2005, driven by the growth of the online population, increasing time spent online, and the growing number of goods and services sold over the Internet. To prepare for this growth, **ExperClick.com** is expanding the direct sales and business development teams worldwide so that we can grow the number of advertisers, information providers, identification providers, and publishers within our network.

We will seek out our partnerships with the industry-leading Web integrators who leverage our platform, building successful Internet business solutions for Fortune 1000 companies.

The **WebBase** division will launch a new ExperForms PDF enabled software product that will integrate with Adobe Acrobat, offering a complete information management solution for business, government, and education. Studies by Gartner Group and Price Waterhouse Coopers show us that 80% of all business documents are forms. \$94 - \$120 billion is spent annually on printing paper forms, and for every \$1 spent on pur-

chasing paper forms, up to \$97 is spent on processing forms. By automating workflow processes, ExperForms software will dramatically reduce the costs that are spent on processing forms, giving our customers a quantifiable value that they will be able to drive to their bottom lines.

According to International Data Corporation (IDC), the market for application server software platforms will be \$2.986 billion by 2001, a 70% increase over 2000. IDC also projects that the demand for applications solution software will exceed \$80 billion in 2000 and \$135 billion by 2004. In 2001, we will continue to market our WebBase application server software to this market.

The rapidly growing Web Forms solutions and packaged Web application servers - represent the core of the WebBase product line. Our company is a proven, well-established provider of these technologies, which play a fundamental role in enabling online forms business.

On behalf of the executive team and all of our employees at ExperTelligence, I'd like to emphasize that we are committed to achieving long-term growth and profitability for our valued shareholders. In the coming years, we expect to benefit from the continuing adoption of our Internet information technologies. We appreciate your continued support and look forward to increasing revenues in 2001.

Denison Bollay  
President and Chairman of the Board  
February 15, 2001

## BUSINESS PROFILE

ExperTelligence, Inc. is a technology company. It develops and operates Internet businesses based on the Company's proprietary technologies and ideas. The Company maintains a division to support its long-standing consulting practice and software products, WebBase and ExperForms. The Company runs a database portal at WebData.com.

ExperTelligence focuses on businesses relating to "Internet hubs" and "exchanges" that create value by connecting and distributing information over the Internet. The Company forms and capitalizes the new entities, recruits management, provides space in the Company's facilities, provides ongoing strategic guidance and mentoring, creative design, Web development, accounting, legal and administrative services, with the goal of preparing each business for independent operation. The Company created 3DStockCharts.com and ExperClick.com, as subsidiaries.

The Company generates revenue from its WebBase division through software and consulting sales. The Company intends to generate cash flow from a combination of equity ownership, operations of its subsidiaries and/or licensing of its technologies.

### ***3DStockCharts.com***

On October 21, 1999, the Company announced the incorporation of 3DStockCharts.com as a subsidiary based on three dimensional proprietary technology created by the Company. 3DStockCharts.com is a pioneering Web service, which provides an integrated continuous portrayal of stock market buy and sell orders (limit order

books) from the country's largest ECNs, (Electronic Communications Network) in a colorful 3-dimensional graphic format. ECNs are regulated, all electronic, stock trading networks that facilitate continuous matching of customer buy and sell limit orders while providing those orders with direct electronic access to the national market system. 3DStockCharts.com has agreements with the ECN's Island, Archipelago, REDIBook, BRUT and Instinet Corporation representing 90% of all ECN transactions to display their limit order books.

The Company is a specialized ECN market center that features real-time 3D charts of individual and integrated ECN limit order books. The Company is also utilizing the streaming data from ECNs to develop useful trading tools and provide critical ECN trading information in an easy-to-interpret format. 3DStockCharts.com has developed a patent pending technology that capitalizes on the dramatic changes in the markets. The Company successfully deployed the Internet's first real time, three-dimensional chart of the four largest ECNs' limit order books. The chart's display is a fascinating view into the buying and selling pressures that affect the price of a stock and provides traders with a unique insight into pricing trends that are not apparent simply by tracking the inside quote. This information has previously been available only to institutional and professional traders. 3DStockCharts.com has 77,000 registered users who spent an average of 66.78 minutes at the site per visit. 3DStockCharts.com shows approximately twelve to fifteen million banner ads based on up to 50,000 visitors a month.

The Company sold a minority interest in 3DStockCharts.com to a group of private investors for \$3,916,690. The Company owns 69% of 3DStockCharts.com.

## ***ExperClick.com***

On April 5, 2000, the Company announced the incorporation of ExperClick.com in the state of Delaware. ExperClick.com is a real-time advertising ECN, similar in nature to the Wall Street Exchange, but for highly targeted individual advertising impressions. ExperClick.com offers advertisers, using all forms of digital media, a unique and innovative solution for delivering targeted personalized messages at the instant a Web page is accessed.

To enable the delivery of valuable advertising to an individual using the Internet today, the recipient has to be identified and the appropriate message selected. Advertisers executing campaigns in real-time can select an audience and buy the media space needed at a value they determine, one impression at a time. For the first time, advertising results can be monitored with a highly detailed real-time report. For this purpose, ExperClick.com has developed a (patent pending) hardware and software technology, which is open, and based on TCP/IP and XML standards. The technology is designed for all forms of digital media. ExperClick is focused on the design and operation of an efficient trading system in which specific advertising and marketing opportunities are individually matched with targeted consumers.

The Internet advertising market is the fastest-growing segment of the Internet industry. According to Forrester Research, spending in the U.S. totaled \$2.8 billion dollars in 1999, and is expected to increase to \$22.6 billion in 2004. The Company has built the technical team and is currently building the sales and marketing team. Board members and strategic partners are being reviewed. There are three patents pending on the hub exchange technology. The Company has built

a unique hosting infrastructure with a state of the art fiber connection. The Company recently entered into a contract with Intel Online Services to provide co-location services in Santa Clara, Ca.

## ***WebData.com***

WebData.com is an Internet database portal specializing in the cataloging, searching and comparison of online content from web sites with databases. WebData 4D(tm), is a proprietary, patent pending technology that is utilized to enable users to locate specific products or data. ExperSearch(tm), is an advanced searching capability provided with [www.WebData.com](http://www.WebData.com) that provides consolidated results from searching across multiple shopping, auction, classified and database sites. ExperSearch is powered by Enchilada(tm), a patent pending search technology developed by Time0, a business of Perot Systems Corporation, that enables the simultaneous search of multiple web sites and the integration of the results displayed in one location.

WebData.com consists of 5,000 high quality cataloged databases and receives approximately 2000 unique visitors a day accounting for approximately 700,000 monthly page views. The site has 251 affiliate relationships with sites that contain databases that also sell products or services. The site receives over 1,500 requests each week from other sites to include their databases on WebData.com.

WebData is the first site to use the ExperClick advertising exchange to deliver its banner advertising

## ***WebBase***

WebBase and ExperForms are the Company's software products that account for the



majority of the Company's consulting revenue and software sales. WebBase provides users the tools to develop easy access to database information over the Internet. It includes full server capabilities and can interface with most database formats. WebBase allows existing databases to be enhanced through the addition of hypertext links into other Internet publications. More information about WebBase may be found on the Company's web site, <http://www.expertelligence.com> and <http://www.webbase.com>.

ExperForms, based on WebBase, automates the creation of forms, database connected workflow and web based business applications. With these tools customers have created applications for help desks, auction websites, ecommerce, travel and expense reporting, calendaring, purchasing requisitions, new hire management and human resources. The Company has recently become a value added reseller of Adobe products.

ExperData.com is a database web-hosting site for WebBase focused on hosting the websites the company creates for its e-commerce and business-to-business applications. ExperData.com has a state of the art fiber optic backbone with the ability to deliver high bandwidth connections, quality support services, site development and database expertise.

### ***Other***

On January 5, 2000, the Company announced the appointment of Chuck House to its Board of Directors. Mr. House served with Hewlett-Packard from 1962 to 1991, first, as a member of the technical staff, and then as founder and later as general manager of HP's Logic System division. He then served for 10 years as corporate engineering director and general manager of HP's Soft-

ware Engineering Systems division. Mr. House has also served as a senior vice president of Informix Software, senior vice president of Veritas Software and president and general manager of Spectron Microsystems. Today, he is executive vice-president for research at Intel's Dialogic Division. Mr. House is also a member of 3DStockCharts.com board of Directors.

On January 14, 2000, the Company announced the appointment of William J. Van Beurden to its Board of Directors. Mr. Van Beurden is President and Chairman of Van Beurden Insurance Services, Inc., one of the top 50 insurance brokers in the US. Mr. Van Beurden is also Chairman of KRM Risk Management, a wholesale insurance brokerage and Chairman of Total Pay, Inc. a payroll solutions provider.

On February 16, 2000, the Company announced the appointment of Dr. Souhail Toubia to its Board of Directors.

Dr. Toubia is founder and co-owner of TMX Engineering and Manufacturing. TMX is a Southern California leader in General Commercial, Computer, Aerospace and Medical Manufacturing. Dr. Toubia has over ten years experience funding a number of domestic and international companies. Dr. Toubia is also a member of 3DStockCharts.com board of Directors.

On February 24, 2000, the Company announced the appointment of Stephen Ketchum, CEO of Onview.com to the Board of Directors. Mr. Ketchum was formally a managing Director of Donaldson, Lufkin, and Jenrette (DLJ) investment-banking group.

On March 10, 2000 the Board of Directors approved the formation of an Audit Committee. Steve Ketchum was elected to head the commit-

tee, with Bill Van Beurden and Souhail Toubia as committee members.

On May 8, 2000 the Company announced that Peter Bachmann, former President of Spelling Entertainment, was named President of ExperTelligence and a director of the Company, as well as a member of its newly created Executive Committee; Michael Rollens, former chairman, CEO and President of Hollywood.com, joined ExperTelligence as a member of the Executive Committee; and John Agoglia, former President of NBC Enterprises, joined the Company as a member of the Executive Committee and a director of ExperClick.com. On October 4, 2000 the Company and its Board of Directors accepted the resignation of Peter Bachmann.

On June 20, 2000 the Company began trading its shares on the NASDAQ Small Cap Market.

On August 1, 2000 the Company began a 401K plan with American United Life as administrators. The plan is presently non-matching.

On October 18, 2000 the Company appointed C. Keith Rooker, a member of the Southern Nevada and Salt Lake City law firm of Rooker & Gibson, to its Board of Directors. Mr. Rooker practiced law from 1962 until 1985 in Salt Lake City. He was a founding faculty member of the J. Reuben Clark School of Law at Brigham Young University. Mr. Rooker practices primarily in the areas of general corporate and business counseling, and large-scale commercial litigation. Mr. Rooker was Executive Vice President of American Pacific Corporation 1985 through 1997 and has been a member of its Board of Directors since 1973, and formerly served as a Director of other publicly held firms.

The Company has thirteen full time and one part-time employees. 3DStockCharts.com has twelve full-time and two part-time employees. ExperClick has fifteen full-time employees and four part-time employees. Additional contract workers are hired as necessary to complete specific projects.

## ***Competitive Information***

The Company is a pioneer in web database server technology. The company has delivered proven solutions to many Fortune 500 customers. We now have many competitors in this field however. The rapidly changing nature of the software industry and the fact that the Internet market is highly dynamic and competitive, requires that a significant effort be devoted to constantly developing new goods, services and partnerships.

In October 1999 the Company launched 3DStockCharts, which is the first of its kind, three dimensional (3D) display mechanism for real-time ECN "order book" information over the Internet. The financial data services on the Internet is highly competitive with hundreds of companies selling real time data.

In April 2000 the Company formed ExperClick.com. The on line ad industry is volatile and highly competitive containing many companies operating many competing types of digital marketplaces.

## ***Regulatory Information***

Government approval is not required for the sale of any of the Company's products.

There are no existing or probable government regulations, which will have a material effect on the Company, and there is no material cost of compliance to environmental laws.

**EXPERTELLIGENCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
September 30, 2000 and 1999

<b>ASSETS</b>	<b>2000</b>	<b>1999</b>
<b>CURRENT ASSETS</b>		
Cash		
Non-interest bearing	\$ 48,499	\$ 5,288
Interest	3,628,475	326,021
Total Cash	3,676,974	331,309
Accounts receivable - net of allowance of -0- for 2000 and 1999	123,248	39,074
Inventory (Note 1D)	18,299	46,536
Prepaid expense	65,322	35,537
Prepaid royalties	-	32,785
Deferred tax assets (Note 1L and 8)	146,000	114,000
<b>Total Current Assets</b>	<b>4,029,843</b>	<b>599,241</b>
<b>PROPERTY AND EQUIPMENT - net (Note 1K and 2)</b>	<b>673,335</b>	<b>387,914</b>
<b>OTHER ASSETS</b>		
Product development costs - net (Note 1F)	722,220	575,571
Deferred tax assets (Note 1L and 8)	720,000	687,000
Patent costs, net of amortization (Note 1E)	17,661	-
Investments	-	5,295
<b>Total Other Assets</b>	<b>1,459,881</b>	<b>1,267,866</b>
<b>TOTAL ASSETS</b>	<b>\$6,163,059</b>	<b>\$2,255,021</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 111,823	\$ 66,853
Accrued liabilities	26,291	-
Accrued vacation	89,850	79,915
<b>Total Current Liabilities</b>	<b>227,964</b>	<b>146,768</b>
<b>MINORITY INTEREST IN SUBSIDIARY</b>	<b>3,348,403</b>	<b>-</b>
<b>SHAREHOLDERS' EQUITY (Notes 3, 4, 5, 6 and 7):</b>		
Preferred stock - no par value, authorized 1,000,000 shares; Issued and outstanding -0- shares for 2000 and 159,244 shares for 1999 (liquidation preference is \$3 per share, (see Note 3)	-	318,487
Common stock, no par value, authorized 20,000,000 shares; issued and outstanding 2,343,140 for 2000 and 1,734,451 shares for 1999	8,734,877	5,338,890
Accumulated deficit	(6,148,185)	(3,549,124)
<b>Total Shareholders' Equity</b>	<b>2,586,692</b>	<b>2,108,253</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$6,163,059</b>	<b>\$2,255,021</b>

**EXPERTelligence, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
September 30, 2000 and 1999

	2000	1999
<b>INCOME</b> (Note 9)	\$ 419,913	\$ 228,652
<b>OPERATING COSTS AND EXPENSES</b>		
Cost of sales	284,303	670,218
Selling and marketing	448,594	184,150
General and administration	2,583,844	633,997
Research and development	480,084	206,900
<b>Total Operating Costs and Expenses</b>	3,796,825	1,695,265
<b>LOSS FROM OPERATIONS</b>	(3,376,912)	(1,466,613)
<b>OTHER (INCOME) EXPENSES</b>		
Interest income	(149,743)	(17,846)
Rental income	(13,392)	-
<b>Total Other (Income) Expenses</b>	(163,135)	(17,846)
<b>LOSS BEFORE INCOME TAXES AND MINORITY INTEREST</b>	(3,213,777)	(1,448,767)
Income Taxes (Note 8)	(64,200)	(322,200)
Minority Interest	(550,516)	-
<b>NET LOSS</b>	\$(2,599,061)	\$(1,126,567)
<b>EARNINGS PER COMMON SHARE</b> (Note 11)		
<b>NET LOSS</b>	\$ (1.1812)	\$ (0.6804)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	2,200,321	1,655,857

**EXPERTELLIGENCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
For the Years Ended September 30, 2000 and 1999 Net

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Deficit	Shareholders' Equity
Balance, September 30, 1998	159,244	\$318,487	1,471,921	\$3,651,890	\$(2,422,557)	\$1,547,820
Stock issued in private placement	---	---	202,000	1,187,000	---	1,187,000
Stock issued for services and Equipment	---	---	44,667	455,000	---	455,000
Stock issued - stock options and warrants exercised	---	---	15,863	45,000	---	45,000
Net loss	---	---	---	---	(1,126,567)	(1,126,567)
<hr/>						
Balance, September 30, 1999	159,244	\$318,487	1,734,451	\$5,338,890	\$(3,549,124)	\$2,108,253
Stock issued in private placement	---	---	416,667	3,000,000	---	3,000,000
Stock issued - stock options and warrants exercised	---	---	32,778	77,500	---	77,500
Preferred stock converted to common stock	(159,244)	(318,487)	159,244	318,487	---	---
Net loss	---	---	---	---	(2,599,061)	(2,599,061)
<hr/>						
Balance, September 30, 2000	---	---	2,343,140	\$8,734,877	\$(6,148,185)	\$2,586,692

**EXPERTelligence, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended September 30, 2000 and 1999

	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collections from customers	\$ 335,739	\$ 291,987
Interest collected	149,743	17,846
Rent collected	13,392	-
Taxes paid	(1,600)	(800)
Cash paid to suppliers and employees	(3,345,106)	(923,037)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(2,847,832)</b>	<b>(614,004)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in product development costs	(274,954)	(353,629)
Purchase of property and equipment	(509)	(57,912)
Purchase of investment	-	(5,295)
Sale of equipment	1,562	-
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(782,922)</b>	<b>(416,836)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common stock issuance	3,077,500	1,232,000
Minority interest in subsidiary	3,898,919	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>6,976,419</b>	<b>1,232,000</b>
<b>INCREASE IN CASH</b>	<b>3,345,665</b>	<b>201,160</b>
<b>CASH AND EQUIVALENTS - BEGINNING OF YEAR</b>	<b>331,309</b>	<b>130,149</b>
<b>CASH AND EQUIVALENTS - END OF YEAR</b>	<b>\$3,676,974</b>	<b>\$ 331,309</b>
<b>RECONCILIATION OF NET LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,599,061)	\$(1,126,567)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Loss on sale of investment	5,295	-
Depreciation and amortization	351,046	676,932
Deferred tax expense (benefit)	(65,000)	(323,000)
Bad debt	-	51,585
Non cash expenditures (Note 11)	-	80,000
Minority interest	(550,516)	-
Changes in:		
Accounts receivable	(84,174)	63,335
Inventory	28,237	20,187
Prepaid expenses	3,001	(51,752)
Patent costs	(17,856)	-
Accounts payable and accrued expenses	71,261	(20,645)
Accrued vacation	9,935	15,921
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(2,847,832)</b>	<b>(614,004)</b>

**EXPERTELLIGENCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2000 and 1999

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Nature of Business**

Expertelligence, Inc. and subsidiaries (the Company) was incorporated in California on March 31, 1980. The Company develops Internet portal technology, publishes database software products for the Internet, and develops and hosts web/database and electronic commerce application solutions.

On October 19, 1999, the Company incorporated 3DStockCharts.com, Inc. (3DStockCharts) which is a 69% owned subsidiary (Note 14). 3DStockCharts distributes its technology and market data through a financial web portal specializing in real time, interactive, two-dimensional (2D) and three-dimensional (3D) browser-based displays of buy and sell order activity and trading volumes for specific stocks and market indexes.

On February 4, 2000, the Company incorporated ExperClick.com, Inc. (ExperClick), a Delaware corporation, which is a wholly-owned subsidiary (Note 15). ExperClick focuses on the design and operation of an efficient trading system in which specific advertising and marketing opportunities are individually matched with targeted consumers.

On June 20, 2000, the Company began trading its shares on the NASDAQ Small Cap Market.

**B. Principles of Consolidation**

The 2000 consolidated financial statements include the accounts of Expertelligence, Inc. and its wholly-owned subsidiaries, ExperClick.com, Inc. and Expertelligence Canada, Inc. and its majority-owned subsidiary 3DStockCharts.com, Inc. Minority interest represents minority shareholders' proportionate share of the equity in 3DStockCharts.com, Inc. The 1999 consolidated financial statements include the accounts of Expertelligence, Inc. and its wholly-owned subsidiary, Expertelligence Canada, Inc. All inter-company accounts and transactions have been eliminated in consolidation.

**C. Cash and Cash Equivalents**

The Company considers all highly-liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**D. Inventory**

Inventory consists primarily of product manuals, CD ROMs, and processing boards and is stated at the lower of average cost (determined on the FIFO basis) or market. A reserve for obsolescence of \$230,874 has been provided for both 2000 and 1999.

**E. Patent Costs**

Patent costs include legal costs for software patents which are being amortized over a life of 20 years. Amortization expense is \$195 for 2000 and -0- for 1999.

**F. Product Development Costs**

Product development costs represent the costs of new products and new application enhancements to existing products incurred subsequent to establishing technological feasibility of the product and prior to the date the product is available for release to customers. Amortization is calculated using the straight-line method over its economic useful life, approximately five years, or on a product-by-product basis in the ratio that current period sales bear to the total of current and anticipated revenues. This policy was adopted by the Company as of April 1, 1986, in accordance with the provisions of Financial Accounting Standards Board Statement No. 86, "Accounting for Software Development Costs." Total costs capitalized during the fiscal years ended September 30, 2000 and 1999, aggregated \$360,704 and \$353,629, respectively. Related amortization and write-off

of obsolete products, utilizing the straight-line method, for the years ended September 30, 2000 and 1999, aggregated \$128,305 and \$579,202, respectively. For the year ended September 30, 2000 and 1999, write-offs of obsolete products totaled \$12,341 and \$510,579 and is included in cost of sales. Accumulated amortization of product development costs total \$293,052 and \$177,088, at September 30, 2000 and 1999, respectively.

#### G. Revenue

Revenue from software sales is recognized on delivery of the software when no further obligations remain under the sales or licensing agreement. Revenue from software license agreements that include significant product development is recognized upon the percentage of completion method. As of September 30, 2000 and 1999, there were no costs and estimated earnings in excess of billings or billings in excess of costs on uncompleted contracts. Product development services include post-contract customer support and software services. Revenue from post-contract customer support is recognized ratably over the period of the post-contract support arrangement. Revenue from software services is recognized as the services are performed.

#### H. Earnings Per Share

Earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Dilutive earnings per share was not presented for 2000 and 1999, because the stock options and warrants were considered antidilutive.

#### I. Research and Development

Research and development expenses, not subject to capitalization, are charged to expense as incurred.

#### J. Property and Equipment

Property and equipment is recorded at cost. Depreciation expense is provided over the useful lives of the assets, which range from three to five years, using the straight-line method.

#### K. Income Taxes

The Company uses Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109) in reporting deferred income taxes. SFAS No. 109 requires a company to recognize deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in the company's financial statements. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

#### L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### M. Stock-Based Compensation

The Company accounts for compensation costs related to employee stock options and other forms of employee stock-based compensation plans in accordance with the requirements of Accounting Principles Board Opinion 25 ("APB 25"). APB 25 requires compensation costs for stock-based compensation plans to be recognized based on the difference, if any, between the fair market value of the stock on the date of the grant and the option exercise price. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 123, Accounting for Stock-Based Compensation ("SFAS 123"). SFAS 123 established a fair value-based method of accounting for compensation costs related to stock options and other forms of stock-based compensation plans. However, SFAS 123 allows an entity to continue to measure compensation costs using the principles of APB 25 if certain pro forma disclosures are made. SFAS 123 is effective for fiscal years beginning after December 15, 1995. The Company adopted the provisions of pro forma disclosure requirements of SFAS 123 in fiscal year 1997. Options granted to non-employees are recognized at their estimated fair value at the date of grant.



#### N. Advertising

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended September 30, 2000 are \$147,604 and for September 30, 1999 were immaterial.

#### Note 2 - PROPERTY AND EQUIPMENT

Depreciation expense for the years ended September 30, 2000 and 1999, is \$222,546 and \$97,730, respectively. Property and equipment at September 30, 2000 and 1999, is summarized as follows:

	<u>2000</u>	<u>1999</u>
Furniture and Fixtures	\$ 67,766	\$ 36,631
Purchased software	495,542	386,343
Equipment	<u>797,052</u>	<u>445,250</u>
	1,360,360	868,224
Less: Accumulated Depreciation	<u>687,025</u>	<u>480,310</u>
	\$673,335	\$387,914

#### Note 3 -SHAREHOLDERS' EQUITY

The preferred stockholders have voting rights equal to that of common stockholders. The preferred stock is convertible into common stock on a one-for-one basis at any time. No shares of preferred stock were issued during the year ended September 30, 2000 and 1999. The preferred stock is nonredeemable, has a preference in liquidation equal to \$3 per share plus any declared but unpaid dividends and provides for dividends to be declared at management's discretion. As of September 30, 2000 and 1999, no dividends have been declared. During the year ended September 30, 2000, the remaining preferred shares were converted into common stock. At September 30, 2000, there are no preferred shares outstanding.

#### Note 4 -STOCK OPTION PLANS

ExperTelligence, Inc. 1996 Equity Participation Plan On August 15, 1996, the Company's Board of Directors of the Company adopted the 1996 Equity Participation Plan, whereby options may be granted to employees, consultants, or independent directors. For Incentive Stock Options the exercise price shall be equal to or greater than the fair market value of the Company's common stock on the date of the grant. For Nonqualified Stock Options, the exercise price shall be not less than 85% of the fair market value of a share of common stock on the date the option is granted. The board of directors shall determine whether options granted under this plan are to be Incentive Stock Options or Nonqualified Stock Options. Options expire ten years after the date of grant unless an earlier expiration date is set at the time of grant. The Company has reserved a total of 475,000 shares of common stock for the exercise of options under this Plan. As of May 5, 2000, an additional 219,000 shares of common stock have been reserved for the exercise of options under this Plan. The number of unoptioned shares available at September 30, 2000 and 1999 for the granting of options under the Plan are 105,800 and 210,000, respectively.

ExperTelligence, Inc. 1996 Equity Participation Plan (continued) Stock option activity for the Incentive Stock Option plan and the Nonqualified Stock Option plan is shown below:

	Number Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value of Options Granted During Year
1999			
Outstanding at beginning of year	178,500	\$3.140	-
Granted	87,500	2.250	\$2.920
Exercised	(1,000)	1.435	-
Cancelled	-	-	-
Outstanding at end of year	265,000	2.810	-
Exercisable at end of year	75,400	3.460	-
2000			
Outstanding at beginning of year	265,000	\$2.810	-
Granted	389,000	8.236	\$8.349
Exercised	(25,300)	2.999	-
Cancelled	(40,500)	2.672	-
Outstanding at end of year	588,200	6.418	-
Exercisable at end of year	151,556	4.562	-

As of September 30, 1999, 12,500 options were granted and are outstanding under the Nonqualified Stock Option plan. As of September 30, 2000, there are no options granted or outstanding under the Nonqualified Stock Option plan.

The following table summarizes information about options outstanding at September 30, 2000:

Options Outstanding			Options Exercisable	
Number of Outstanding Shares at Sept. 30, 2000	Remaining Contractual Life	Exercise Price	Number of Shares Exercisable Sept. 30 2000	Exercise Price
95,200	6.4	\$4.000	30,556	\$8.000
44,000	7.4	1.435	54,000	4.000
60,000	8.0	2.125	14,000	1.435
5,000	8.4	15.375	12,000	2.125
175,000	9.6	8.000	40,000	4.250
65,000	9.2	4.250	1,000	15.375
14,000	9.3	7.375	151,556	
10,000	9.6	7.875		
1,000	9.2	8.190		
20,000	9.4	14.938		
4,000	9.8	7.000		
10,000	9.4	13.500		
10,000	9.4	15.812		
25,000	9.3	4.000		
25,000	9.4	12.000		
25,000	9.3	9.625		
588,200				

Statement of Financial Accounting Standards 123, "Accounting for Stock-Based Compensation", encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic

value method prescribed in Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees", and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

Had compensation costs for the plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, the Company's net loss and earnings per share would have been:

	<u>2000</u>	<u>1999</u>
Net loss		
As reported	(2,599,061)	(1,126,567)
Pro forma	(3,468,116)	(2,234,792)
Primary earnings per share		
As reported	(1.1812)	(0.6804)
Pro forma	(1.5762)	(1.3496)

These pro forma amounts may not be representative of future disclosures because they do not take into effect pro forma compensation expense related to grants made before 1996. In addition, potential deferred tax expense and benefits of approximately \$398,500 and \$441,500, for the years ended September 30, 2000 and 1999 respectively, has not been reflected in the pro forma amounts. The fair value of these options was estimated at the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Expected life (years)	1-10	1-10
Risk-free interest rate	6.00%	4.75%
Volatility	200%	143%
Expected dividends	None	None

3DStockCharts 2000 Equity Participation Plan On January 19, 2000, the Board of Directors of 3DStockCharts adopted the 2000 Equity Participation Plan, whereby options may be granted to employees, consultants, or independent directors. For Incentive Stock Options the exercise price shall be equal to or greater than the fair market value of the Company's common stock on the date of the grant. For Nonqualified Stock Options, the exercise price shall be not less than 85% of the fair market value of a share of common stock on the date the option is granted. The board of directors shall determine whether options granted under this plan are to be Incentive Stock Options or Nonqualified Stock Options. Options expire ten years after the date of grant unless an earlier expiration date is set at the time of grant. The Company has reserved a total of 3,500,000 shares of common stock for the exercise of options under this Plan. The number of unoptioned shares available at September 30, 2000 for the granting of options under this Plan are 665,160.

Stock option activity for 3DStockChart's Incentive Stock Option Plan and the Nonqualified Stock Option Plan is show below:

	<u>Number Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Grant Date Fair Value of Options Granted During Year 2000</u>
Outstanding at Beginning of year	-	-	-
Granted	2,834,840	\$0.5726	\$0.5833
Exercised	-	-	-
Cancelled	-	-	-
Outstanding at end of year	2,834,840	0.5726	-
Exercisable at end of year	1,165,608	0.5726	-

As of September 30, 2000, 349,840 options were granted and are outstanding, and 344,840 were exercisable under the Nonqualified Stock Option Plan. The following table summarizes information about Options outstanding at September 30, 2000.

<u>Options Outstanding</u>			<u>Options Exercisable</u>	
Number of Outstanding Shares at Sept. 30, 2000	Remaining Contractual Life	Exercise Price	Number of Shares Exercisable Sept. 30 2000	Exercise Price
28,379	9.4	\$0.01	1,055,004	\$0.50
2,620,000	9.5	\$0.50	68,556	\$1.96
37,500	9.5	\$1.00	5,208	1.00
72,500	9.6	\$1.96	36,840	\$0.01
5,000	9.7	\$1.96	1,165,608	
63,000	9.8	\$1.96		
8,461	9.9	\$0.01		
2,834,840				

On February 7, 2000, the Board of Directors of ExperClick adopted the 2000 Equity Participation Plan whereby options may be granted to employees, consultants, or independent directors. For incentive stock options the exercise price shall be equal to or greater than the fair market value of the Company's common stock on the date of the grant. For nonqualified stock options, the exercise price shall be not less than 85% of the fair market value of a share of common stock on the date the option is granted. The board of directors shall determine whether options granted under this plan are to be Incentive Stock Options or Nonqualified Stock Options. Options expire ten years after the date of grant unless an earlier expiration date is set at the time of grant. The Company has reserved a total of 3,000,000 shares of common stock for the exercise of options under this Plan. The number of unoptioned shares available at September 30, 2000 for the granting of options under this Plan are 1,435,000. Stock Option activity for ExperClick's Incentive Stock Option Plan and the Nonqualified Stock Option Plan is shown below:

	Number Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value of Options Granted During Year 2000
Outstanding at Beginning of year	-	-	-
Granted	1,565,000	\$1.00	\$1.00
Exercised	-	-	-
Cancelled	-	-	-
Outstanding at end of year	1,565,000	1.00	-
Exercisable at end of year	1,116,668	1.00	-

As of September 30, 2000, no options have been granted under the Nonqualified Stock Option Plan.

The following table summarizes information about options outstanding at September 30, 2000:

<u>Options Outstanding</u>			<u>Options Exercisable</u>	
Number of Outstanding Shares at Sept. 30, 2000	Remaining Contractual Life	Exercise Price	Number of Shares Exercisable Sept. 30 2000	Exercise Price
1,040,000	9.4	\$1.00	1,116,688	\$1.00
330,000	9.5	\$1.00		
165,000	9.6	\$1.00		
20,000	9.8	\$1.00		
10,000	9.0	\$1.00		
1,565,000				

#### **Note 5 - COMMON STOCK**

During the year ended September 30, 1999, the Company sold 217,000 shares of unregistered common stock through private placements to individual investors. 15,000 of these shares represent common stock warrants that were exercised. Unregistered common stock represent shares issued under Rule 144 of the Securities Act which permit limited resale of securities purchases in a private placement subject to the satisfaction of certain conditions.

On October 7, 1998, the Company issued 16,667 shares of unregistered common stock valued at \$50,000, in exchange for marketing and consulting services

On March 6, 1999, the Company issued 25,000 shares of unregistered common stock at \$15 per share in exchange for a software license and service agreement. In addition, 25,000 shares of common stock warrants were also issued at \$15 per share and expired on July 6, 1999.

On May 24, 1999, the Company sold 10,000 shares of common stock at \$3 per share in exchange for public relation consulting services.

On January 14, 2000, the Company sold 250,000 shares of unregistered common stock through private placements to individual investors for a total of \$1,000,000.

On February 23, 2000, the Company sold 166,667 shares of unregistered common stock through private placements to individual investors for a total of \$2,000,000. Common stock warrants to purchase 1,000,000 shares of ExperClick common stock at \$1.00 per share were also issued in connection with this private placement.

#### **Note 6 - PUT RIGHTS**

The Company has agreed that the holders of 3DSTockCharts Series A Preferred Stock (Investors) shall have the right to put their shares to the Company in exchange for the Company's issuance to the Investors of shares of the Company's common stock and warrants to purchase shares of the Company's common stock. The Investors may put to the Company either or both of the shares of Series A Preferred Stock and the original warrants to purchase 1,100,000 shares of Common Stock. The Investors may exercise this put right at any time after May 4, 2000 and on or before November 4, 2001.

Initially the Put Ratio shall be as follows:

One share of the Company's common stock shall be issuable for each fourteen shares of common stock of 3DSTockCharts issuable upon conversion of the shares of Series A Preferred Stock with respect to which the Put Right is exercised, and One warrant to purchase one share of the Company's common stock shall be issuable for each fourteen shares of common stock of 3DSTockCharts issuable upon conversion of the shares

of Series A Preferred Stock issuable upon exercise of the 3DStockCharts warrants with respect to which the Put Right is exercised.

The warrant to purchase the Company's common stock shall have an exercise price of \$10.50 per share and shall have a term that expires on September 30, 2002. The Put Ratio and the exercise price of the warrants to purchase the Company's common stock shall be adjusted from time to time to reflect all stock dividends, stock splits, recapitalization and similar changes in the Company's common stock.

## Note 7 - STOCK WARRANTS

### A. ExperTelligence, Inc. Common Stock Warrants

The Company's common stock warrants outstanding as of September 30, 2000 are as follows:

Warrant Shares <u>Granted</u>	Grant Date	Exercise Price	Expiration Date	Warrant Shares <u>Expired</u>	Warrant Shares <u>Exercised</u>	Warrant Shares Outstanding <u>9-30-00</u>
20,000	1-14-00	\$ 4.00	1-14-02	-	(10,000)	10,000
25,000	1-31-99	\$10.00	1-15-01	-	-	25,000
2,500	2-28-99	\$15.00	2-15-00	(2,500)	-	-
66,000	1-31-00	\$10.00	1-25-01	-	-	66,000
113,500				(2,500)	(10,000)	101,000

The weighted average grant date fair value of warrants granted during the year ended September 30, 2000 is \$7.75

### B. ExperClick Common Stock Warrants

ExperClick common stock warrants granted during the year ended September 30, 2000 are as follows:

Warrant Shares <u>Granted</u>	Grant Date	Exercise Price	Expiration Date	Warrant Shares <u>Expired</u>	Warrant Shares <u>Exercised</u>	Warrant Shares Outstanding <u>9-30-00</u>
1,000,000	2-11-99	\$1.00	4-30-01	-	-	1,000,000

The weighted average grant date fair value of warrants granted during the year ended September 30, 2000 is \$1.00.

### C. 3DStockCharts Common Stock Warrants

3DStockCharts common stock warrants granted during the year ended September 30, 2000 are as follows:

Warrant Shares <u>Granted</u>	Grant Date	Exercise Price	Expiration Date	Warrant Shares <u>Expired</u>	Warrant Shares <u>Exercised</u>	Warrant Shares Outstanding <u>9-30-00</u>
109,088	10-19-99	\$0.825	10-19-02	-	-	109,088
1,090,912	1-19-99	\$0.75	10-19-02	-	-	1,090,912
32,859	5-05-00	\$0.75	5-05-03	-	-	32,859
1,232,859				-	-	1,232,859

#### D. 3DStockCharts Preferred Stock Warrants

3DStockCharts preferred stock warrants granted during the year ended September 30, 2000 are as follows:

Warrant Shares Granted	Grant Date	Exercise Price	Expiration Date	Warrant Shares Expired	Warrant Shares Exercised	Warrant Shares Outstanding 9-30-00
200,000	10-19-99	\$0.55	10-19-02	-	-	200,000

#### Note 8 -INCOME TAXES

Income tax expense (benefit) for the years ended September 30, 2000 and 1999, are as follows:

	2000	1999
Current	\$ 800	\$ 800
Deferred	(65,000)	(323,000)
Total	\$(64,200)	\$(322,200)

Components of the deferred tax assets recognized in the balance sheet at September 30, 2000, are as follows:

	Current	Non-current
Accrued vacation pay	\$ 37,000	\$ -
Property and equipment	-	(16,000)
Software costs	-	(310,000)
Deferred state tax	9,000	52,000
Net operating losses	100,000	2,474,000
Deferred tax credit	-	270,000
	146,000	2,470,000
Deferred tax assets valuation allowance	-	(1,750,000)
Deferred tax asset	\$ 146,000	\$ 720,000

Reconciliation of the difference between income taxes computed at Federal statutory tax rates and provision for income taxes, for the year ended September 30, 2000, is as follows:

Income taxes computed at Federal statutory tax rate	\$(1,077,000)
State tax provision	(151,000)
Graduated tax rates	-
Net operating loss and deferred credits	-
Valuation allowance	1,163,800
Provision for income taxes	\$ (64,200)

Temporary differences have resulted between financial statement and income tax reporting including depreciation, capitalized software costs, non-deductibility of accrued vacation wages not paid within seventy-five days of year end, and net operating loss carryforwards.

As of September 30, 2000, the Company had the following approximate net operating loss and tax credit carryforwards available to reduce future federal and state income taxes:

Expiring Sept. 30	Federal Net Operating Losses	Federal Tax Credits	State Net Operating Losses	State Tax Credits
2001	390,000	-	-	-
2002	309,000	-	171,000	-
2003	125,000	-	8,000	-
2004	-	6,000	592,000	-
2005	614,000	30,000	1,710,000	9,000
2006	481,000	39,000	-	16,000
2007	68,000	14,000	-	-
2008	-	10,000	-	-
2009	-	-	-	-
2010	-	1,000	-	-
2011	-	4,000	-	8,000
2012	342,000	2,000	-	1,000
2013	9,000	8,000	-	5,000
2014	1,166,000	41,000	-	23,000
2015	3,420,000	33,000	-	20,000
	\$6,924,000	\$188,000	\$2,481,000	\$82,000

Components of the deferred tax assets recognized in the balance sheet at September 30, 1999, are as follows:

	Current	Non-current
Accrued vacation pay	\$ 33,000	\$ -
Property and equipment	-	(7,000)
Software costs	-	(247,000)
Deferred state tax	8,000	17,000
Net operating losses	73,000	727,000
Deferred tax credits	-	183,000
	114,000	673,000
Deferred tax assets valuation allowance	-	14,000
Deferred tax asset	\$114,000	\$687,000

Reconciliation of the difference between income taxes computed at Federal statutory tax rates and provision for income taxes, for the year ended September 30, 1999, is as follows:

Income taxes computed at Federal statutory tax rate	\$(493,000)
State tax provision(18,000)	
Graduated tax rates	-
Net operating loss and deferred credits	644,000
Valuation allowance	(455,200)
Provision for income taxes	\$(322,200)

#### **Note 9 -SIGNIFICANT CUSTOMERS AND CREDIT RISK**

For the year ended September 30, 2000, 68% of accounts receivable was concentrated among three customers. These same customers accounted for approximately 20% of total revenue. For the year ended September 30, 1999, 56% of accounts receivable was concentrated between three customers. These same customers accounted for approximately 26% of total revenue.



## **Note 10 - CASH AND CASH EQUIVALENTS - CONCENTRATION OF CREDIT RISK**

Uninsured cash balances were \$3,400,131 at September 30, 2000, and \$185,006 at September 30, 1999.

## **Note 11 - NON-CASH TRANSACTIONS**

During the year ended September 30, 2000, several employees exercised a total of 12,800 stock options under the 1996 Equity Participation Plan in the form of a cash-less exercise and forfeited 2,522 shares of common stock in order to receive 10,278 shares of unregistered common stock. During the year ended September 30, 1999, the Company issued 16,667 shares of unregistered common stock valued at \$3 per share in exchange for marketing and consulting services, 10,000 shares of unregistered common stock valued at \$3 per share in exchange for public relation consulting services, and 25,000 shares of unregistered common stock at valued \$15 per share in exchange for a software license and service agreement.

## **Note 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company has various financial instruments, none of which are held for trading purposes. The Company estimates that the fair value of all financial instruments at September 30, 2000 and 1999, does not differ materially from the carrying values of its financial instruments recorded in the accompanying balance sheet. Considerable judgement is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of amounts the Company could realize in a current market exchange.

## **Note 13 - COMMITMENTS AND CONTINGENCIES**

### **Lease**

On January 1, 1999, the Company signed a two-year lease extension for office space on Chapala Street under a non-cancelable operating lease dated December 15, 1995. The lease expires on December 31, 2001 and monthly rental payments are \$2,445. The monthly rental rate will be adjusted on January 1st of each subsequent year to reflect the year-to-year percentage change in the Los Angeles Consumer Price Index for September. This office space is being subleased to the Company's subsidiary, 3DStockCharts.com, Inc., for \$4,290 per month based on a month-to-month lease agreement. Intercompany income of \$19,871 was eliminated in consolidation.

### **Sublease**

As of September 1, 1999, the Company subleased additional office space under a non-cancelable operating lease through August 31, 2002 for monthly rental payments of \$8,400. Beginning on September 1, 2000, and every anniversary date thereafter, the monthly rent will be adjusted by the year-to-year percentage change in the Los Angeles Consumer Price Index for the month of July. The Company has an option to extend the sublease for one additional year. Total office rent expense for the years ended September 30, 2000 and 1999 is \$138,368 and \$38,225 respectively. Future minimum lease payments for the year ending September 30, are as follows:

2001	\$131,136
2002	99,984
Total	\$231,120

## **Note 14 - SPIN-OFF - 3DSTOCKCHARTS**

On October 19, 1999, 3DStockCharts was incorporated and the Company received 8 million shares of common stock and an 80% ownership of 3DStockCharts in exchange for transferring \$82,400 of capitalized software costs. In April and May 2000, additional shares of 3DStockCharts were issued in private placements which diluted the Company's ownership percentage to 69%.

#### **Minority Interest**

Minority interest in subsidiary on the Consolidated Balance Sheet consists of 2 million shares of preferred stock of 3DStockCharts valued at \$1,000,000 and 1,523,137 shares of common stock of 3DStockCharts valued at \$2,985,348. Each share of preferred stock is convertible into one share of common stock at any time at the option of the holder. In addition, the holders of the Series A preferred stock also hold warrants which contain Put Rights as disclosed in Note 6. The loss attributable to the noncontrolling interest in 3DStockCharts is \$550,516 and is reflected in Minority Interest in the Consolidated Statements of Income.

#### **Note 15 - INVESTMENT IN EXPERCLICK**

On February 4, 2000, ExperClick.com, Inc. was incorporated in the state of Delaware. On February 7, 2000, the Company acquired 100% ownership of ExperClick and received 10 million shares of common stock in exchange for \$500,000 in cash.

#### **Note 16 - DEFERRED COMPENSATION PLAN**

During the year ended September 30, 2000, the Company implemented a salary deferral plan under Internal Revenue Code Section 401 (k). The participants must be 21 years of age and employed for at least 90 days. The Company's contributions to the plan, as determined by the Board of Directors, is discretionary but may not exceed 15% of the participants' compensation. The Company has elected not to make any contributions for 2000.

#### **Note 17 - RELATED PARTY TRANSACTIONS**

The Company uses an outside payroll service and a director on the Company's board is also the chairman of the board of the outside payroll service. 3DStockCharts has a contract with Island ECN and a director of 3DStockCharts is an employee of Island ECN. Total payments of \$15,409 were made during the year ended September 30, 2000.



## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders  
ExperTelligence, Inc. and Subsidiaries  
Santa Barbara, California

We have audited the accompanying consolidated balance sheets of ExperTelligence, Inc., a California corporation, and subsidiaries, as of September 30, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ExperTelligence, Inc., and subsidiaries at September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

McGowan Guntermann  
Santa Barbara, California  
November 16, 2000

## EXPERTelligence BOARD OF DIRECTORS

**Denison W. Bollay**

President and Chief Executive Officer  
ExperTelligence, Inc.

**Robert W. Reali**

Chief Operating Officer  
ExperTelligence, Inc.

**Charles "Chuck" House**

Executive Vice President Communications Research  
Intel Corporation  
Parsippany, NJ

**William Van Beurden**

President  
VanBeurden Insurance Services, Inc.  
Kingsgrove, CA

**Dr. Souhail Toubia**

Founder and Co-owner  
TMX Engineering & Manufacturing  
Santa Ana, CA

**Steve Ketchum**

President and Chief Executive Officer  
OnView.com  
New York, NY

**Keith Rooker**

Of Consul  
Rooker, Gibson & Later  
Henderson, NV

***Executive Officers***

Denison W. Bollay  
President and Chief Executive Officer

Robert W. Reali  
Chief Operating Officer

## INFORMATION

### General Information

Headquarters  
ExperTelligence, Inc.  
25 East Ortega Street  
Santa Barbara, California 93101  
Telephone: 805-962-2558  
Fax: 805-962-5188

### Company Information

Copies of the ExperTelligence Annual Report and Form 10-K for the fiscal year 2000 are available to shareholders without charge. If you wish to receive these reports or other company information, please contact:

#### Investor Relations

ExperTelligence, Inc.  
25 East Ortega Street  
Santa Barbara, CA 93101  
Telephone: 805-962-2558  
Fax: 805-962-5188

### Annual Meeting

The Annual Meeting of Stockholders of ExperTelligence, Inc. will be held at 10:00 a.m. on Thursday, March 22, 2001, at The Harbor View Inn, Las Palmas Conference Room, 28 West Cabrillo Boulevard, Santa Barbara, California 93101

### Transfer Agent

If you have any questions about stock certificates, change of address, consolidation of accounts, transfer of ownership or other stock matters, please contact ExperTelligence's transfer agent:

Computershare Trust Company, Inc.  
12039 W. Alameda Parkway, Suite Z-2  
Lakewood, Colorado 80228  
Telephone: 303-986-5400  
Fax: 303-986-2444

#### Independent Accounts:

Farber & Hass, LLP  
741 South A Street  
Oxnard, CA 93030  
Telephone: 805-385-3077  
Fax: 385-3076

